

# BARTEL ASSOCIATES, LLC

September 10, 2012

Debra Figone  
City Manager  
City of San Jose  
200 East Santa Clara Street  
San Jose, CA 95113

**Re: City of San Jose Police and Fire Department Retirement Plan - Tier 2 Normal Cost Estimate**

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Police and Fire Department employees. This letter does not take into account any possible City contributions to a defined contribution plan.

## Summary of Proposed Benefit Changes

The following table summarizes the proposed Police and Fire Tier 2 benefit as compared to the current pension benefit:

	Current Plan	Proposed Tier 2
■ Accrual Rate	■ 2.5% - 4.0% per year depending on service	■ 2.0% per year
■ Max Benefit	■ 90%	■ 65%
■ Eligibility	■ 50&25, or ■ 55&20, or ■ 30 years	■ 60&10 ■ 50&10 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% - 83% J&S	■ Single Life
■ Disability	■ Duty - 50% - 90% FAE1 ■ Non-Duty - 32% - 90% FAE1	■ Duty - 50% FAE3 ■ Non-Duty - 20% - 50% FAE3
■ Cost Sharing	■ Normal Cost: <ul style="list-style-type: none"> <li>• City - 73%</li> <li>• EE - 27%</li> </ul> ■ Unfunded Liability: <ul style="list-style-type: none"> <li>• City - All except EE portion</li> <li>• EE - A portion attributable to certain past benefit improvements</li> </ul>	■ Normal Cost: <ul style="list-style-type: none"> <li>• City - 50%</li> <li>• EE - 50%</li> </ul> ■ Unfunded Liability: <ul style="list-style-type: none"> <li>• City - 50%</li> <li>• EE - 50%</li> </ul>

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### Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Police and Fire employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Police & Fire Employees)		Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)	
	7.5%	6.75%	7.5%	6.75%
■ Discount Rate				
■ Total NC %:				
• Benefits	39.8%	47.9%	20.8%	24.4%
• Admin Expenses	1.6%	1.6%	1.6%	1.6%
• SRBR	3.1%	3.1% <sup>1</sup>	0.0%	0.0%
• Total	44.5%	52.6%	22.4%	26.0%

### Assumptions

The results are based on the City of San Jose Police and Fire Department Retirement Plan June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Police and Fire participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Police and Fire participants included in the valuation who were hired within the last five years.

### Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Police and Fire Department Retirement Plan and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel  
President

c: Alex Gurza, City of San Jose  
Jennifer Schembri, City of San Jose  
Cathy Wandro, Bartel Associates

<sup>1</sup> SRBR will likely increase as % of pay.